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2011

# F. A. Hayek's Sympathetic Agents

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## Recommended Citation

Peart, Sandra J., and David M. Levy. "F. A. Hayek's Sympathetic Agents." In *Hayek, Mill, and the Liberal Tradition*, edited by Andrew Farrant, 39-56. Milton Park, Abingdon, Oxon: Routledge, 2011.

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## 2 F. A. Hayek's sympathetic agents

*Sandra J. Peart and David M. Levy*

### Introduction

In his 2002 Nobel Lecture, Vernon Smith refers to “the simultaneous existence of two rational orders,” which “are distinguishing characteristics of what we are as social creatures” (Smith 2003: 466). For Smith, who invokes David Hume and F. A. Hayek in this regard, both orders “are essential to understanding and unifying a large body of experience from socioeconomic life and the experimental laboratory, and in charting relevant new directions for economic theory as well as experimental-empirical programs” (Smith 2003: 466).<sup>1</sup> This chapter examines the nature and consequences of Hayek's concept of human agency by exploring the Hayekian two worlds of human conduct. We argue that Hayek renounced the use of an explicit model of reclusive agency in favor of an implicit model of sympathetic (correlated) agency.

In what follows, we show first that, for Hayek, behavior within the small group – the “small band or troop,” or “micro-cosmos” – is correlated, resulting from agents who are sympathetic one with another. We shall argue that sympathy in this context for Hayek entails the projection of one's preferences onto the preferences of others. With such correlated agency as the default in small-group situations, Hayek attempts to explain the transition from small groups to a larger civilization. We consider the role of projection in Hayek's system at length, because projection from the local group characterized by a well-defined preference ordering to the world beyond the neighborhood may yield mistaken beliefs. We shall argue that Hayek's recognition of this outcome underlies his pessimism about the democratic attempt to effect “social justice.”

Finally, we shall take up the question of whether and how to avoid this temptation to impose one set of preferences on another when local optima differ. We address this question by considering how sympathetic projection can go awry in the Classical tradition, specifically in Adam Smith's system. The problem is, we shall argue, one of “factions.” Smith famously worried about the destructive nature of factions, their tendency to exploit the larger society (Levy and Peart 2008a). In the case of religious factions – perhaps the most famous example of destructive behavior of this sort – Smith held that competition among small groups might resolve the problem. Central to his argument is the realization that

if the local groups are small enough, individuals in the larger society will belong to overlapping organizations. As they move in their daily lives from one small organization to another, they will find that the organizations differ and they will thus learn to agree to disagree. People will come to accept the incoherence that characterizes life in the larger sphere.

### **The totalitarian temptation**

A key to Hayek's account of the totalitarian lies in the difference between Vernon Smith's "two rational worlds": an organization and an order. Hayek sets out the difference between an organization – a collective with a coherent set of goals (preference ordering) – and an order – a collective without this coherence. People have, he maintains, personal experience with organizations, small groups, but since they have none with the larger collection of organizations, orders, they are left to theorize about the collectivity. As they do so, as they attempt to turn their experience with orders into knowledge of organizations, they are tempted in Hayek's account by totalitarianism. By this, Hayek means that they are tempted to imagine that the goals or preference ordering of the larger collective, the order, are coherent in the way that the goals of the small collective, the organization, might be. So, as people move from the small to the large group, a failing of the imagination occurs. People project their preference for a single preference ordering onto the group, and they desire the coherence that results. We note in what follows that, as long as the experience and consequent preference orderings of the small groups vary, no such coherence results. More, the very desire for coherence on a social level is inconsistent with a liberal order characterized by a plurality of goals. Hayek is skeptical of any wide-scale solution to the temptation for imposing coherence, what we might call a totalitarian temptation, that results. The only possible solution is piecemeal institutional reform of one sort or another, for example, Hayek (1979), Hayek and Buchanan (1978).

When Hayek wrote his *Road to Serfdom*, "totalitarianism" was an unfamiliar word. In his system, Hayek turned totalitarianism into a term with precise meaning.<sup>2</sup> He distinguished between the theory of a collectivity and its manifestation, totalitarianism. For Hayek, the totalitarian norm is a complete ordering of social states. Once we realize this, we can reformulate Hayek's argument in terms of standard social choice theory. What Kenneth Arrow called a "dictatorship" is related to the requirements for Hayek's "complete ethical code" of totalitarianism.<sup>3</sup> This totalitarian "ethical code" is characterized by a "unitary end" so that only one person's goals are allowed to matter. Arrow's impossibility theorem establishes that the goal of a complete ordering of social states is inconsistent with non-dictatorship as a formal matter.<sup>4</sup> But Arrow leaves open the question of whether a collectivity might prefer coherence to non-dictatorship.<sup>5</sup> In Hayek's account, the projection motivates the temptation to choose coherence over non-dictatorship, so that people who are habituated to coherence in the small group might also prefer coherence to non-dictatorship in the large group.

This sheds new light on Hayek's "slippery slope" argument, which might be reformulated as a recognition (and a warning against the recognition) that individuals might willingly cede freedom of choice to a dictator or a planner because that leaves them with the coherence that characterizes their other spheres of life.

We shall emphasize Hayek's treatment of the small group in writings after his 1960 *Constitution of Liberty* in which the small group is viewed as natural in some biological sense.<sup>6</sup> The full measure of Hayek's turn toward biological foundations is not very well understood. There is a completely non-biological account of the demand for coherence in his 1949 "Intellectuals and Socialism." Here he distinguishes among three mutually exclusive groups – ordinary people, intellectuals, and specialists/scholars. Ordinary people have no use for systematic philosophy so they are little interested in imagining the world as coherent. Specialists/scholars are all too aware of the puzzles at the frontier of their discipline so they address themselves to making the pieces of their world fit together. Hayek's characterization of intellectuals – "second-hand dealers in ideas" – although perhaps meant as an insult, makes the point quite nicely. To explain the world to non-specialists one is tempted to make it more coherent than it really is.

Intellectual is an occupation. The imposition of coherence comes from the incentives of the position. Hayek's account of the intellectuals' demand for coherence suggests that among intellectuals one would find more willingness to trade democracy for coherence than in the other groups. This is certainly a testable implication. Hayek seems to have given up such incentive-based arguments when he started to write about small groups with unitary goals as natural. It is useful to note that if one distrusts such naturalistic accounts of the sort we shall explore next, there are incentive-based alternatives to which one might appeal.

### Hayekian sympathy as correlated behavior

When we propose that Hayek works with "sympathetic" agency we need to clarify that his account is not necessarily the same as Adam Smith's or, for that matter, pre-Smithian accounts. "Sympathy" is the transliteration of an ancient Greek technical term, meaning "co-affective" or "interactive." The word was extensively employed by both Greek and Roman philosophers in the Stoic tradition who posited cosmic sympathy as the *hidden* force which moved all parts of the world.<sup>7</sup> So, sympathetic explanations offered correlation without evidence of a causal mechanism. The correlated motion of the tides and the moon was a once widely used instance of how sympathy was said to play out in the physical world. To explain sympathetic principles of motion, the mathematical model of vibrating strings was developed. As sympathetic motion came to be idealized, "harmony" came to be understood not only as a musical term but also as an ethical goal (Levy and Peart 2008a).

Adam Smith's account of sympathy stands out as the transforming moment in the historical record. He took the notion of sympathy as a form of vibration that resulted from a physical connection and transformed it instead into an act of

imagination, a projection of one's preferences to another in the same situation. The difference is important because, before Smith, people were said to sympathize only with their equals; while Smith made the case that we can in fact sympathize with those who are quite unlike ourselves. In such cases, we may initially make mistaken projections, but we come to refine our ability to sympathize. Affection is then nothing more than habituated sympathy (mediated by institutions), and the act of sympathizing comes to equalize, to make us more alike. This is the key point that separated David Hume, who held that sympathy is a physical reaction, a form of empathy, and Smith, for whom sympathy is the projected act of imagination (Peart and Levy 2005).

Hayek uses sympathy to explain widely observed imitative behavior.<sup>8</sup> Imitation generates correlated behavior which itself has a key methodological implication for Hayek: recognition of interpersonal dependence causes him to be deeply skeptical about using dependence-blind statistical methods in economics.<sup>9</sup>

The correlated behavior that features most prominently in Hayek's construction is reciprocity. In Hayek's construction, the sense of reciprocity explains the movement from small groups to civilization. We quote a passage from his important 1966 address to the Mont Pèlerin Society. Here Hayek differentiates between "reciprocal but not common purposes." He argues that the reciprocal behavior, first observed in a small tribe, becomes a norm for "ever wider circles of undetermined persons":<sup>10</sup>

29. The growth from the tribal organization, all of whose members served common purposes, to the spontaneous order of the Open Society in which people are allowed to pursue their own purposes in peace, may thus be said to have commenced when for the first time a savage placed some goods on the boundary of his tribe in the hope that some member of another tribe would find them and leave in turn behind some other goods to secure the repetition of the offer. From the first establishment of such a practice which served reciprocal but not common purposes, a process has been going on for millennia which, by making rules of conduct independent of particular purposes of those concerned, made it possible to extend these rules to ever wider circles of undetermined persons and eventually might make possible a universal peaceful order of the world.

(Hayek 1966: 168)

The notion of even a small group with a common purpose might seem odd for an economist today, but Hayek's appeal to what is now known as the "investment" or "trust" game shows just how far he is from the rational (independent) actor model of the 1960s. The trust game has a trivial solution, the wandering tribe which encounters a free lunch, picks it up and leaves nothing. The stationary tribe, in anticipation, leaves nothing. In point of fact, the Hayekian reciprocal outcome where each group leaves food for the other group(s) is borne out in experimental economics.<sup>11</sup>

## Hayek on projection

For Hayek, as noted above, sympathy generates imitative behavior. This is coherent inside Hayek's larger system in which he provides an alternative to accounts based on the assumption of independent agency. Such an alternative requires a theory of dependent agency. The central problem in Hayek's theory of mind is classification or grouping. The classification of objects into groups that are the "same" does not depend upon the objects "really" being the same. Instead, they are (or they become) the "same" because they are classified that way.<sup>12</sup> To move beyond the unconscious, Hayek depends upon projection. By an act of imagination, others become like us and so meaning becomes intersubjective.<sup>13</sup>

We consider in order Hayek's account of projection about other people who "really" are much like us and projection about those at a great distance from us. We will distinguish reliable from unreliable projection by appealing to the distance involved. We will return to the link between reliability and distance after we consider Hayek's argument.

### *Reliable projection*

Without distinguishing between the account in Hume and that in Smith, Hayek maintains that his approach is a return to the Scottish tradition.<sup>14</sup> In either event, Hayek's reformulation of the Scottish tradition rules out the "existence of isolated or self-contained individuals" and presupposes dependent human agency instead:

What, then, are the essential characteristics of true individualism? The first thing that should be said is that it is primarily a *theory* of society, an attempt to understand the forces which determine the social life of man, and only in the second instance a set of political maxims derived from this view of society. This fact should by itself be sufficient to refute the silliest of the common misunderstandings: the belief that individualism postulates (or bases its arguments on the assumption of) the existence of isolated or self-contained individuals, instead of starting from men whose whole nature and character is determined by their existence in society.

(1946: 6)<sup>15</sup>

Hayek's discussion of eighteenth-century conceptions of sympathy emphasizes that sympathy plays a role in how individuals come to understand the world around them. We quote at some length from his 1963 British Academy lecture. Here, Hayek explains how something like Smith's imaginative projection allows us to classify, to connect activities as "wholes," to say that some of my actions and some of your actions are the same thing, they have the same name, they are elements of a class:

We have yet to consider more closely the role which the perception of the meaning of other people's actions must play in the scientific explanation of

the interaction of men. The problem which arises here is known in the discussion of the methodology of the social sciences as that of *Verstehen* (understanding). We have seen that this understanding of the meaning of actions is the same kind as the understanding of communications (i.e., actions intended to be understood). It includes what the eighteenth-century authors described as sympathy and what has more recently been discussed under the heading of “empathy” (*Einhühlung*). Since we shall be concerned chiefly with the uses of these perceptions as data for the theoretical social sciences, we shall concentrate on what is sometimes called rational understanding (or rational reconstruction), that is, on the instances where we recognize that the persons in whose actions we are interested base their decisions on the meaning of what they perceive. The theoretical social sciences do not treat all of a person’s actions as an unspecifiable and unexplainable whole but, in their efforts to account for the unintended consequences of individual actions, endeavour to reconstruct the individual’s reasoning from the data which to him are provided by the recognition of the actions of others as meaningful wholes.

(1963: 58–9)

The ability to classify offers a foundational account of how we understand unarticulated rules: “We have seen that our capacity to recognize action as following rules and having meaning rests on ourselves already being equipped with these rules” (1963: 59). In the years before he published *The Sensory Order*, Hayek considered the classification of others’ actions based on a type of projection, what “we know solely from knowledge of our mind.” In the “great majority of instances,” reasoning from such “analogies” is accurate:

If we consider for a moment the simplest kinds of actions where this problem arises, it becomes, of course rapidly obvious that, in discussing what we regard as other people’s conscious actions, we invariably interpret their action on the analogy of our own mind: that is, that we group their actions, and the objects of their actions, into classes or categories which we know solely from the knowledge of our mind. We assume that the idea of a purpose or a tool, a weapon or food, is common to them with us.

(1943: 63)

If I see for the first time a big boulder or an avalanche coming down the side of a mountain toward a man and see him run for his life, I know the meaning of this action because I know what I would or might have done in similar circumstances.

There can be no doubt that we all constantly act on the assumption that we can in this way interpret other people’s actions on the analogy of our mind and that in the great majority of instances this procedure *works*. The trouble is that we can never be sure.

(1943: 64)

Such is the nature of “anthropomorphic explanations” for Hayek, who wonders whether they constitute science, or not (1943: 65). Since economics is mathematically certain, Hayek concludes that they have no place in the pure logic of choice.<sup>16</sup>

### *Projection at great distance*

Projection also enters into Hayek's account of how individuals make the transition from small to larger groups. In this transition, projections create the key difficulty of the modern world. Hayek argues that people project from what they know, their experience with organizations characterized by a unified goal, to that which they do not know, societies without a goal. In so doing, they are tempted by totalitarianism. To this we now turn.

The foundation for the attack on social justice in the second volume of *Law, Legislation and Liberty* is laid in the 61 numbered, tightly argued paragraphs of Hayek's 1966 address to the Mont Pèlerin Society. In this essay Hayek sets out the difference between an organization – a collective with a coherent set of goals (preference ordering) – and an order – a collective without this coherence of goals. We are tempted by totalitarianism, in Hayek's account, when we attempt to turn an order into an organization.

The first two paragraphs of the address review Hayek's 1946 distinction between British and Continental liberalism. The third paragraph distinguishes liberalism from democracy. Hayek's terminology sets liberalism definitionally opposed to totalitarianism and democracy definitionally opposed to authoritarianism. The possibility of democratic totalitarianism and authoritarian liberalism are empirical issues (1966: 161). Those who attended the Mont Pèlerin Society in 1966 would not need to be told that totalitarianism is described in *Road to Serfdom* as the state of society in which only one hierarchy of goals, preference ordering, is allowed.<sup>17</sup>

Paragraphs 6–13 discuss the relationship between liberalism and a spontaneous order. A spontaneous order emerges out of decisions made by individuals without common goals. As such, it serves as a natural environment for liberalism. Hayek next confronts the confusion between an “order” and an “organization.” While the order is characterized by reciprocity, it differs from the organization precisely because it lacks coherence, a single aim:

15. An economy in the strict sense of the word in which we can call a household, a farm, an enterprise or even the financial administration of government an economy, is indeed an organization ... in the service of a unitary order of purposes. It rests on a system of coherent decisions in which a single view of the relative importance of the different competing purposes determines the uses to be made of the different resources.

(1966: 164)

16. The spontaneous order of the market resulting from the interaction of many such economies is something so fundamentally different from an



economy proper that it must be regarded as a great misfortune that it has ever been called by the same name.... I propose that we call this spontaneous order of the market a *catallaxy* in analogy to the term “catallactics”,...

(1966: 164)

17. The chief point about a catallaxy is that, as a spontaneous order, its orderliness does *not* rest on its orientation on a single hierarchy of ends, and that, therefore, it will not secure that for it as a whole the more important comes before the less important.

(1966: 164)

The outcome in a spontaneous order cannot, strictly speaking, be described as “just” since this would required a single (unanimously agreed-upon) hierarchy of ends. But this is not how people see things. They project what they know onto what they do not know. What they know is coherent, the single hierarchy of ends in the organization, so they imagine that what they do not know, the order, should also be characterized by a single set of preferences. They impose the coherence of what they know on what do not know: “37. That the concept of justice is nevertheless so commonly and readily applied to the distribution of incomes is entirely the effect of an erroneous anthropomorphic interpretation of society as an organization rather than as a spontaneous order” (1966: 171). From this follows the temptation to totalitarianism: “38. All endeavours to secure a ‘just’ distribution must thus be directed towards turning the spontaneous order of the market into an organization or, in other words, into a totalitarian order” (1966: 171).

Let us reformulate Hayek’s argument in terms of the Arrow impossibility literature. The question Hayek is asking is, what condition guarantees that social decision procedures are transitive? The answer he is offering is dictatorship: where one agent’s preferences are the only ones that count. This is what Hayek calls totalitarianism.

So, to combine the terminology from both Arrow and Hayek, society is faced with a trade-off between coherence and liberal democracy. Which will prevail? The formal properties of axiomatic systems give no guidance. Hayek’s 1949 “Intellectuals and Socialism” argued that intellectuals, more than experts or the public, were most tempted by totalitarianism. The intellectuals’ desire for coherence was at the root of this temptation.<sup>18</sup> Hayek leaves unexplained the question of why intellectuals are more concerned with coherence relative to truth than experts or ordinary people – the other ideal types in his 1949 story. Perhaps Adam Smith’s connection between affection and habitual sympathy provides an answer. Those who are habituated to coherence, who spend the most time in coherent systems of thought will, other things being equal, be more likely to think social coherence worth the cost. Hayek’s claim might be correct but for an economic account, we would require a specification of the goals and constraints of intellectual life. This Hayek does not provide.

### The tyranny of the minority

Hayek argues that there is a strong tendency for a well organized group to exploit a less organized group. Although people within small groups are connected by bonds of sympathy and reciprocity, the groups themselves are connected by neither personal ties nor considerations of reciprocity. Hayek's technical criticism of interest-group democracy is sketched in 1960 in the context of corporate voting rights, a work that is apparently unknown even to scholars who have recently begun to explore the very same corporate pyramids that troubled Hayek.<sup>19</sup> Since the problem of corporate pyramids highlights the importance of Hayek's early concern, it provides a useful case to work out the logic of his argument. This also an instance of Hayek's account of small-group action which does not have biological roots.

In Hayek's account, when corporate pyramids exist, the controlling stockholders in one company can run other corporation(s) for their benefit, leaving shareholders in the other corporation(s) with poor options:

where the shares of one corporation are owned by another corporation, ... nobody seriously questions that any control thus exercised by the second corporation over the first can legitimately be employed to increase the profits of the second. In such a situation it is clearly possible, and not unlikely, that the control over the policy of the first corporation will be used to channel the gains from its operations to the second, and that the first would be run, not in the interest of all its stockholders but only in the interest of the controlling majority. When the other stockholders discover this it will be too late for them to apply any remedy. The only possibility they will have is to sell out – which may be just what the corporate stockholder wants.

(1960: 309)

How did this come about? An evolutionary failure? So it seems. The lack of *deliberation* and *awareness* created the failure:

I must admit that I have never quite understood the *rationale* or justification of allowing corporations to have voting rights in other corporations of which they own shares. So far as I can discover, this was never deliberately decided upon in full awareness of all its applications, but came about simply as a result of the conception that, if legal personality was conferred upon the corporation, it was natural to confer upon it all powers which natural persons possessed. But this seems to me by no means a natural or obvious consequence. On the contrary, it turns the institution of property into something quite different from what it is normally supposed to be. The corporation thereby becomes, instead of an association of partners with a common interest, an association of groups whose interests may be in strong conflict; and the possibility that a group which directly owns assets amounting only

to a small fraction of those of the corporation, may, through a pyramiding of holdings, acquire assets amounting to a multiple of what they own themselves.

(1960: 309)

The correction is to take away the connected corporation's right to vote:

There seems to me to exist no reason why a corporation should not be allowed to own stock of another corporation purely as an investment. But it also seems to me that such a stock, so long as it is owned by another corporation, should cease to confer a right to vote.

(1960: 309)

So, corporate pyramiding turns governance from a matter of individuals with common interests to groups with conflicting interests. Hayek's cure is to abolish the link between investment and corporate democracy – the "one share one vote" principle fails to reflect the interest of the majority of assets, so Hayek proposes a change in the voting rules.

All of this, majorities controlling majorities resulting in the minority extortion of majorities, evolutionary failure and drastic revision of the right to vote, is to be found in *Law, Legislation and Liberty*. Here, Hayek makes the case that majority rule in the larger world has become something akin to the world of corporate pyramids, in which a group which is large enough to control interest groups extract transfers from the majority itself. Indeed, here we find Hayek defending the Athenian practice of election by lot!<sup>20</sup> It is in the context of the tyranny of the minority that Hayek offered such drastic reforms.<sup>21</sup> "Progress" has been reversed and Hayek worries about the dictator who will save society from themselves:

What I have been trying to sketch in these volumes (and the separate study of the role of money in a free society) has been a guide out of the process of degeneration of the existing form of government, and to construct an intellectual emergency equipment which will be available when we have no choice but to replace the tottering structure by some better edifice rather than resort in despair to some sort of dictatorial regime.

(1979: 152)

Hayek's despair is such that he concludes there is no path by means of a spontaneous order to take us out of the disorder. Evolution has failed.<sup>22</sup> To solve this evolutionary failure, we need government and government requires purpose.

### **Factions and competition**

Projection in the small, in our local environment, works far more smoothly in Hayek's account than projection in the large.<sup>23</sup> The difference between action in

the small and in the large is central to Hayek's discussion of the information aggregation properties of markets which culminated in the 1945 "Use of Knowledge in Society." Individuals with local knowledge act in such a way that prices reflect the aggregation of local information. To preserve these information aggregation properties, individuals need to "submit" to prices and the price system.<sup>24</sup>

Hayek's argument about projection from the local organization to the social order depends, it seems, on the implicit assumption that there is only one local organization (or, if there are many, they are sufficiently similar in preferences). But what if there are many? Hayek's important concern about one faction exploiting the larger society is a general version of the problem of religious factions which Adam Smith encountered but did not solve in *Theory of Moral Sentiments*. In *Wealth of Nations*, Smith offered a possible solution to the problem (Levy and Peart 2009). What is important for the present argument is just how critical it is in Smith's proposal that a person belongs not just to one but to many organizations.

The consequence of competition in religion is to change the social distance. Hierarchy in a sect is replaced by equality across sects. We no longer have a world of leaders and followers, we have equals agreeing to disagree to avoid loneliness (Levy and Peart 2008a):

The teachers of each sect, seeing themselves surrounded on all sides with more adversaries than friends, would be obliged to learn that candour and moderation which is so seldom to be found among the teachers of those great sects whose tenets, being supported by the civil magistrate, are held in veneration by almost all the inhabitants of extensive kingdoms and empires, and who therefore see nothing round them but followers, disciples, and humble admirers. The teachers of each little sect, finding themselves almost alone, would be obliged to respect those of almost every other sect, and the concessions which they would mutually find it both convenient and agreeable to make to one another, might in time probably reduce the doctrine of the greater part of them to that pure and rational religion, free from every mixture of absurdity, imposture, or fanaticism, such as wise men have in all ages of the world wished to see established; but such as positive law has perhaps never yet established, and probably never will establish, in any country: because, with regard to religion, positive law always has been, and probably always will be, more or less influenced by popular superstition and enthusiasm.

(Smith 1776: v.i.197)

It is important to notice Smith has implicitly appealed here to a notion of overlapping organizations.

### **Conclusion: how many organizations are in a person's life?**

In his Nobel Lecture discussed at the outset, Vernon Smith notes that generations of economists have ignored Adam Smith's *Theory of Moral Sentiments*.

Indeed, the incoherence of *Wealth of Nations* and *Theory of Moral Sentiments* is known as *Das Adam Smith Problem*. Because Smith's proposed solution to the problem of religious factions is precisely in the intersection of these two books (Levy 1978; Levy and Peart 2008a), it seems to have been overlooked by even the most careful scholars.

Smith's solution is important for Hayek's argument because in Smith's account competition ensures that religious groups become populated by people who belong to overlapping organizations. Perhaps a family will be co-religionists, but there is no reason to believe that the people with whom they work will belong to the same sect. In this society of competitive religions, a person's daily life weaves through different organizations, each of which may well have a coherent goal. But the goals will differ. Which goal is projected to the social order? Toleration of diversity is a plausible equilibrium if only because Adam Smith said so and because the experience of American religious toleration is consistent with this teaching.

Competitive discussion and toleration of diversity are at the heart of John Stuart Mill's *On Liberty*, in which adherents to each set of beliefs will present their goals. It seems to be the case that, for Hayek, an individual can be a member of only one organization. Whether membership in diverse organizations will turn an organization into an order remains an open question.

## Notes

- 1 Smith (2003: 466). Smith's paper opens with a quotation from David Hume and then from Hayek on the two worlds in which people function.

"we must constantly adjust our lives, our thoughts and our emotions, in order to live simultaneously within different kinds of orders according to different rules. If we were to apply the unmodified, uncurbed rules (of caring intervention to do visible 'good') of the ... small band or troop, or ... our families ... to the (extended order of cooperation through markets), as our instincts and sentimental yearnings often make us wish to do, *we would destroy it*. Yet if we were to always apply the (competitive) rules of the extended order to our more intimate groupings, we would *crush them*" (Friedrich A. Hayek, 1988: 18; italics are his, parenthetical reductions are mine).

(Smith 2003: 465)

Smith's quotation omits the words "micro-cosmos" and "macro-cosmos" (Hayek 1988: 18), which are signatures of the Stoic tradition. In the ancient texts, "micro-cosmos" defined a person, as opposed to "the small band or troop, or of, say, our families" (Hayek 1988: 18). The movement from the individual to the small group is important for this argument discussed below.

- 2 Referring to the political consequences of collectivism, Hayek writes: "In short, they are totalitarian in the true sense of this new word which we have adopted to describe the unexpected but nevertheless inseparable manifestations of what in theory we call collectivism" (1944: 59). The *Oxford English Dictionary* gives the first usage of "totalitarianism" in 1926 in the context of Italian fascism. Ezra Pound is quoted from 1937. Hayek knew of Pound and writes this about John Milton: "It is, perhaps, significant that our generation has seen a host of American and English detractors of Milton – and that the first of them, Mr. Ezra Pound, was during this war broadcasting from Italy!" (Hayek 1944: 220).

- 3 The various kinds of collectivism, communism, fascism, etc., differ between themselves in the nature of the goal towards which they want to direct the efforts of society. But they all differ from liberalism and individualism in wanting to organise the whole of society and all its resources for this unitary end, and in refusing to recognise autonomous spheres in which the ends of the individuals are supreme. In short, they are totalitarian.

(Hayek 1944: 60)

Hayek argues against this and concludes the paragraph: "It presupposes, in short, the existence of a complete ethical code in which all the different human values are allotted their due place." He continues in the next paragraph: "The conception of a complete ethical code is unfamiliar and it requires some effort of imagination to see what it involves. We are not in the habit of thinking of moral codes as more or less complete."

- 4 The connection between Hayek's argument and Arrow's impossibility theorem was seen earlier by Boettke and Leeson (2002) and reported as part of seminar commentary by Caldwell (2007: 30). Neither lays out Hayek's argument that this demand for coherence comes from a projection from a natural group with unitary goals to an order.
- 5 Buchanan and Yoon (2006) discuss how unsettling the Arrow–Black result was. Buchanan (1954) stands out in retrospect as uniquely undisturbed by social incoherence. Buchanan and Yoon (2006) offer a solution to the Arrow impossibility theorem by something akin to a rational expectations move: if Arrow's agents know what Arrow knows, then their voting behavior may change.
- 6 In *Road to Serfdom* the unitary group was explained by primitive rules and taboos.

From the primitive man, who was bound by an elaborate ritual in almost every one of his daily activities, who was limited by innumerable taboos, and who could scarce conceive of doing things in a way different from his fellows, morals have more and more tended to be merely limits.

(Hayek 1944: 101)

In his important 1966 "Principles of a Liberal Social Order," the small group is "tribal" (Hayek 1966: 168).

- 7 The disrepute into which sympathy fell can be gauged by the simple fact that "occult" is Latin for hidden. Indeed, the connection between sympathy and magic is a commonplace among specialists (Levy and Peart 2008a).
- 8 Hayek (1963: 46–7):

The main difficulty which has to be overcome in accounting for these phenomena is most clearly seen in connection with the phenomenon of imitation. The attention paid to this by psychologists has fluctuated greatly and after a period of neglect it seems again to have become respectable. The aspect which concerns us here probably has not again been stated more clearly since it was pointed out at the end of the eighteenth century by Dugald Stewart [Hayek cites Dugald Stewart, *Elements of the Philosophy of the Human Mind*, chapter on "Sympathetic Imitation"].

- 9 Hayek (1945: 83):

The comparative stability of the aggregates cannot, however, be accounted for – as the statisticians occasionally seem to be inclined to do – by the "law of large numbers" or the mutual compensation of random changes. . . . The continuous flow of goods and services is maintained by constant deliberate adjustments, by new dispositions made every day in the light of circumstances not known the day before, by B stepping in at once when A fails to deliver.

Hayek (1964: 29):

Statistics, however, deals with the problem of large numbers essentially by eliminating complexity and deliberately treating the individual elements which it counts as if they were not systematically connected ... it deliberately disregards the fact that the relative position of the different elements in a structure may matter.

The importance of this aspect of Hayek's argument is emphasized in Khan (2008).

- 10 One wonders how many in the audience caught the Stoic image of moral obligation?

Each one of us is as it were entirely encompassed by many circles, some smaller, others larger, the latter enclosing the former on the basis of their different and unequal dispositions relative to each other. The first and closest circle is the one which a person has drawn as though around a centre, his own mind. This circle encloses the body and anything taken for the sake of the body. For it is virtually the smallest circle, and almost touches the centre itself. Next, the second one further removed from the centre ... contains parents, siblings, wife, and children. The third one has in it uncles and aunts, grandparents, nephews, nieces, and cousins. The next circle includes the other relatives, and this is followed by the circle of local residents, then the circle of fellow-tribesman, next that of fellow-citizens, and then in the same way the circle of people from the neighbouring towns, and the circle of fellow-countrymen. The outermost and largest circle, which encompasses all the rest, is that of the whole human race. Once these have been all surveyed, it is the task of a well tempered man, in his proper treatment of each group, to draw the circles together somehow towards the centre, and to keep zealously transferring those from the enclosing circles into the enclosed ones.

(Hierocles in Long and Sedley 1987: 349)

- 11 Berg *et al.* (1995), cited in Smith (2003). A JSTOR search on "Hayek" and "Dickhaut" turns up only two papers, Smith (1994) and (2003), which discuss the work of both authors.

- 12 Thus, Hayek imagines a machine which puts balls into a receptacle:

any grouping of different balls by the machine which places them in the same receptacle will create a class which is based exclusively on the action of the machine and not on any similarity which those balls possess apart from the action of the machine.

(Hayek 1952: 49)

- 13 Hayek (1952: 134):

There appears to exist three *prima facie* differences between such unconscious and conscious behavior which we may provisionally describe by saying that in conscious behavior a person will, (*a*) be able to "give an account" of what he is or has been doing.

Hayek (1952: 135):

When we say that a person is able to "give an account" of his mental processes we mean by this that he is able to communicate them to other people by means of "symbols", that is by actions, which when perceived by other people, will occupy in their mental order a position analogous to that which they occupy in his own; and which, in consequence, will have for those other persons a meaning similar to that which it possesses for him.

- 14 Hayek stresses the common elements in Mandeville, Hume and Smith. The identification of Mandeville and Smith was challenged by Harrod (1946). The identification of Mandeville with laissez-faire – in the sense that Adam Smith's position can be so



described – is debated by specialists, Viner (1953) and Rosenberg (1963), with Hayek siding with Rosenberg (Hayek 1967a.) Viner's correspondence with both Rosenberg and Hayek is discussed in Irwin (1991).

- 15 Recall Hayek's distinction in *The Road to Serfdom*, discussed above, between "collectivism" as a theory and "totalitarianism" as a norm.
- 16 A foundational difference between Hayek and classical political economy, as explained by Charles Babbage, is that political economy depends upon median expectation (Peart and Levy 2005). An inference that "works" as well as Hayek stipulates here would pass the Babbage test.
- 17 Hayek (1944: 162) quotes Nietzsche as "entirely in the spirit of collectivism":

A thousand goals have there been so far, for there have been a thousand peoples. Only the yoke for the thousand necks is still lacking: the one goal is lacking. Humanity still has no goal. But tell me, my brothers, if humanity still lacks a goal – is humanity itself not still lacking too? Thus spoke Zarathustra.

(Nietzsche 1954: 170)

- 18 Hayek (1949: 184–5):

It is perhaps the most characteristic feature of the intellectual that he judges new ideas not by their specific merits but by the readiness which they fit into his general conceptions, into the picture of the world which he regards as modern or advanced.

- 19 Morck and Steier (2005) cite *Constitution of Liberty* but none of the authors in the conference volume edited by Morck discusses Hayek's concern or his proposal for reform.
- 20 Hayek (1979: 32):

Democracy, so far as the term is not used simply as a synonym for egalitarianism, is increasingly becoming the name for the very process of vote-buying, for placating and remunerating those special interests which in more naive times were described as the "sinister interests." ... I believe in fact that we should get a more representative sample of the true opinion of the people at large if we picked out by drawing lots some five hundred mature adults and let them for twenty years devote themselves to the task of improving the law, guided only by their conscience and the desire to be respected, than by the present system of auction.

- 21 Hayek (1979: xiii):

When the present volume leads up to a proposal of basic alteration of the structure of democratic government, which at this time most people will regard as wholly impractical, this is meant to provide a sort of intellectual stand-by equipment for the time, which may not be far away, when the breakdown of the existing institutions becomes unmistakable and when I hope it may show a way out. It should enable us to preserve what is truly valuable in democracy and at the same time free us of its objectionable features which most people still accept only because they regard them as inevitable.

- 22 Hayek (1973: 88):

*Why grown law requires correction by legislation* The fact that all law arising out of the endeavour to articulate rules of conduct will of necessity possess some desirable properties not necessarily possessed by the commands of a legislator does not mean that in other respects such law may not develop in very undesirable directions, and that when this happens correction by deliberate legislation may not be the only practicable way out. For a variety of reasons the spontaneous process of growth may lead into an impasse from which it cannot extricate itself by its



own forces or which it will at least not correct quickly enough. The development of case-law is in some respects a sort of one-way street: when it has already moved a considerable distance in one direction, it often cannot retrace its steps when some implications of earlier decisions are seen to be clearly undesirable. The fact that law that has evolved in this way has certain desirable properties does not prove that it will always be good law or even that some of its rules may not be very bad. It therefore does not mean that we can altogether dispense with legislation.

There are several other reasons for this. One is that the process of judicial development of law is of necessity gradual and may prove too slow to bring about the desirable rapid adaptation of the law to wholly new circumstances. Perhaps the most important, however, is that it is not only difficult but also undesirable for judicial decisions to reverse a development, which has already taken place and is then seen to have undesirable consequences or to be downright wrong. The judge is not performing his function if he disappoints reasonable expectations created by earlier decisions. Although the judge can develop the law by deciding issues which are genuinely doubtful, he cannot really alter it, or can do so at most only very gradually where a rule has become firmly established; although he may clearly recognize that another rule would be better.

This passage is stressed by Whitman (1998: 48).

23 Hayek (1943: 65–6):

What I mean by a “friendly face” does not depend upon the physical properties of different concrete instances, which may conceivably have nothing in common. Yet I learn to recognize them as members of the same class – and what makes them members of the same class is not any of their physical properties but an imputed meaning.

The importance of this distinction grows as we move outside the familiar surroundings. As long as I move among my own kind of people, it is probably the physical properties of a bank note or a revolver from which I conclude they are money or a weapon the person is holding. When I see a savage holding cowrie shells or a long, thin tube, the physical properties of the thing will probably tell me nothing. But the observations which suggest to me that the cowrie shells are money to him and the blowpipe a weapon will throw much light on the object – much more light than those same observations could possibly give if I were not familiar with the conception of money or a weapon. In recognizing the things as such, I begin to understand the people’s behavior. I am able to fit into a scheme of actions which “make sense” just because I have come to regard it not as a thing with certain physical properties but as the kind of thing which fits into the pattern of my own purposive action.

24 Kahn (2005) stresses the significance of Hayek’s choice of word, “submission.”

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